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23 April 1983

MEMORANDUM FOR: Jim Libera
Office of OECD European Community, and
Atlantic Political-Economic Affairs
Bureau of European Affairs
Department of State

FROM : [redacted] 25X1
Chief, East-West Regional Branch, East European
Division, Office of European Analysis
Central Intelligence Agency

SUBJECT : Comments on the OECD Report on Eastern Europe's
Trade Prospects with the West

1. We agree with the OECD Secretariat's conclusion that Eastern Europe's financial position has improved since 1981 but that any revival of East-West trade likely will be modest. The Secretariat's paper rightly notes that although the region's trade adjustments have improved creditor attitudes, lending will be much more selective and at much lower levels than in the past. Moreover, the Secretariat correctly pinpoints the source of the region's recent hard currency trade surpluses as a combination of sharp import reductions and increased re-exports fo OPEC oil, neither of which is likely to generate substantial surpluses over the longer-term. [redacted] 25X1

2. We believe there are two other areas that will adversely affect East-West trade that the Secretariat has failed to address. The first issue is the prospects for trade between the Soviet Union and the East European six. The cutbacks in oil deliveries beginning in 1982, last year's rise in the CMEA price of oil to approximately world levels, and recent declines in most of Eastern Europe's trade deficits with the Soviet Union suggest Moscow is less willing to subsidize the East European economies. Continued Soviet pressure for more balanced intra-CMEA trade, for increased East European investment in the USSR in return for energy and raw materials, and possibly for reduced dependence on the West will impede a revival of OECD trade with Eastern Europe. [redacted] 25X1

3. A second issue that the Secretariat's paper mentioned only briefly is the prospects for the domestic economies. Para 9 refers to the impact of import cuts on domestic growth and export competitiveness. While we agree it is hard to quantify the impact, a general statement that such severe cuts will retard both growth and export competitiveness is warranted. In 25X1

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addition, the Secretariat's paper failed to consider the issue of economic reforms. With Soviet economic support waning and only a modest revival of East-West trade in the offing, the East Europeans essentially are left to their own devices to boost growth. This, in turn, means increased productivity via reforms. To date, only Hungary has embarked on serious systemic changes which hold out some prospects for increased productivity over the longer-term. [redacted] 25X1

4. The following are brief comments on individual paragraphs in the Secretariat's paper.

<u>Para 9:</u> Add the comment mentioned above that such sharp reductions will impede growth and export competitiveness. [redacted] 25X1

<u>Para 10:</u> We have only about a 7 percent drop in gross debt but the difference is probably due to the handling of Polish arrearages. [redacted] 25X1

<u>Para 11:</u> Citing a regional growth figure probably overstates the performances of the domestic economies. For example, Poland's rebound last year adds an upward bias to the figure given the large size of the Polish economy. While East Germany and Czechoslovakia also grew a bit faster, the southern-tier performed less well due to a drought which depressed agricultural output. Moreover, we have strong doubts about the validity of Romania's official numbers describing economic growth last year. [redacted] 25X1

<u>Para 12:</u> As mentioned above, the re-export of OPEC oil is unlikely to remain profitable over the longer-term. [redacted] 25X1

<u>Para 14:</u> While we agree that the adjustments made in Eastern Europe were difficult, they were also the most obvious ones to be made and represent only quick-fixes. The regimes have done little to attack the weaknesses in their economies which initially contributed to the debt crisis. [redacted] 25X1

<u>Para 16:</u> We agree that further adjustments will have to be made and thus current account surpluses will continue, but the paper might also note that there are signs, such as a pickup in contracts for agricultural imports, that the size of the surpluses are beginning to shrink. [redacted] 25X1